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Economic Intelligence Weekly

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CONTENTS

	<u>Page</u>	
Notes		
International Monetary Development	1	
Export Prices of European Gasoline Weaken	1	
		25X1
Japan to Buy North Sea Oil	1	
Soviets Establish Diamond Firm in Belgium	2	
Bulgaria Seeks More Trade with the United States	2	

Articles

Worldwide Grain Developments	3
USSR: Record Grain Crop Still Forecast <i>Because of improved weather, previously stalled harvesting operations have picked up; expectations for a record grain crop continue.</i>	5
Status of US Grain Shipments to the USSR <i>All but 4.5 million tons of the FY 1973 commitments have been shipped.</i>	6
New Interest in Southeast Asian Oil <i>Growing world demand for oil is stimulating exploration in Southeast Asia.</i>	7
Soviet Oil Exports to the West Decline <i>Total exports declined by about 2 million tons in 1972.</i>	8

Publication of Interest

Summary of a Recent Publication	9
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Comparative Indicators

Recent Data Concerning Domestic and External
Economic Activity

Inside Back Cover

Note: Comments and queries on the contents of this publication are welcomed. They may be directed to

SECRET

20 July 1973

SECRET

ECONOMIC INTELLIGENCE WEEKLY

Notes

International Monetary Development

The dollar remains weak in light trading on European money markets. Nevertheless, Bundesbank purchases of more than \$100 million in the last two weeks, together with US intervention, have helped calm the markets. Tight money conditions in Germany have worked in favor of the mark and against other currencies, including the dollar. The mark has also strengthened relative to other currencies in the European joint float, again testing that fragile arrangement. [REDACTED]

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Export Prices of European Gasoline Weaken

West European gasoline prices are weakening as US import demands level off. Brokers report that US buyers are no longer interested in spot purchases of 94 octane gasoline in the 25 cents a gallon range. A cargo of European gasoline offered at 23.5 cents delivered in New York found no buyers. Record refinery runs, substantial imports during the first half of the year, and slower-than-expected consumption growth are responsible for the slackening demand. European governments, only recently worried that US demand was aggravating their shortages, may be faced with short-term surpluses. [REDACTED]

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Japan to Buy North Sea Oil

The Japanese apparently have made their first deal for North Sea crude oil with the US-owned Getty Oil Co. In late June, Mitsubishi Oil Co. reportedly signed a long-term contract to buy all of Getty's North Sea output, which is expected to start at 150,000 barrels per day in 1975.

SECRET

26 July 1973

SECRET

To save on transportation costs, Mitsubishi plans to swap North Sea crude for crude from the Middle East, Japan's principal source of supply. (UNCLASSIFIED)

Soviets Establish Diamond Firm in Belgium

To expand sales of finished diamonds, the USSR has formed a diamond cutting and marketing firm in Antwerp, the world's chief diamond center. The USSR will have a controlling interest in the new firm, formed in partnership with the Antwerp Diamond Company, and Soviet nationals will manage the firm's operations. Most Soviet diamonds, however, will continue to be marketed as uncut stones, principally through London under an agreement with DeBeers. The United States, which bought \$14 million worth in 1972, is the main Soviet market for finished diamonds.

25X1

Bulgaria Seeks More Trade with the United States

Bulgaria's Deputy Minister of Foreign Trade recently suggested that Bulgarian imports from the United States could rise to between \$100 million and \$150 million in 1974. The Bulgarians are interested in expanding their petrochemical, metallurgical, and food and tobacco processing industries. Some large contracts may be under consideration by Sofia, but the value of future trade has been inflated to encourage the United States to proceed more rapidly toward granting Bulgaria MFN status. Bulgarian purchases from the United States in FY 1974 are unlikely to exceed \$30 million even if MFN is granted and Bulgaria receives some Export-Import Bank credits.

25X1

SECRET

26 July 1973

SECRET

Articles

Worldwide Grain Developments

East Germany

A month of hot dry weather already has damaged yields of early potatoes, winter barley, and hay and is threatening other crops, including wheat and rye. Soil moisture by mid-July was estimated to be at least 40% below normal. Unless the drought breaks soon, the East Germans probably will have to boost grain imports in fiscal year 1974 above the 3 million ton level of last year. Crops in parts of Czechoslovakia and Poland also need moisture, but so far the situation in these countries is much less serious than in East Germany.

25X1

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Argentina

Argentina is finding it difficult to fulfill this year's commitment to export 3.1 million tons of wheat. Shipments are almost at a standstill even though unfilled contracts still total some 750,000 tons. The export shortfall stems from the new Peronist government's price freeze, which has encouraged producers to withhold supplies. If current efforts to commandeer producers' stocks fail, Buenos Aires will have to relax the price freeze, curb consumption, or turn to the world market to fulfill its commitments. Because agricultural policies and heavy rains have sharply reduced current plantings, exports are expected to decline substantially next year, possibly to as little as 1 million tons.

25X1

Japan

In response to pressing demands from several countries, Tokyo has decided to increase sharply its exports from its rice stock during the year ending March 1974. The Japanese are sending 150,000 tons to South Korea and 100,000 tons to Bangladesh, and the Ministry of Agriculture in Tokyo

SECRET

26 July 1973

SECRET

has now announced that another 260,000 tons will go to Indonesia, the Philippines, Cambodia, and the Malagasy Republic. Having already committed most of the 300,000 tons of stock allocated earlier for export, Tokyo will draw on lower quality rice set aside to make rice crackers during 1974-76. [REDACTED]

25X1

Bangladesh

About 200,000 tons of US grain purchased by the Soviets last year is being diverted to Bangladesh. The Soviet shipments will begin arriving this week and will be completed in August. Also, Bangladesh is purchasing 200,000 tons of wheat in the United States, financed by AID, for immediate shipment. [REDACTED]

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Israel

The Israeli government has requested exemption from US export controls for 90,000 tons of soybeans contracted for but not yet shipped. About 270,000 tons already have been shipped from the 1972 crop. Israel says that shipment of one-half the remaining amount, as proposed by the United States, would leave a 45-day gap in supplies until the new crop becomes available. The United States has been Israel's sole source of soybeans. [REDACTED]

25X1

Jordan

To counter effects of the present drought, Jordan has asked the United States to provide 8,000-10,000 tons of soybean meal, either through the PL-480 program or through commercial sales. Jordan's present stocks will run out by mid-September. [REDACTED]

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Grain Shipping Costs

Charter rates for the movement of grain have been higher during June and July of this year than at any time since closure of the Suez Canal in 1956. On the US Gulf to India route, charters for grain cargoes are being made at \$31 per ton in July 1973, compared with \$18 per ton in January 1973. [REDACTED]

25X1

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USSR: Record Grain Crop Still Forecast

Improved weather in the European USSR has permitted a stepup in the rate of harvesting. Unless conditions in Kazakhstan and Siberia turn sour, the USSR should harvest a record crop.

The present outlook is for excellent yields in the European USSR if threshing is not delayed too long. Harvesting in the European USSR was hindered by rains and wind that flattened and soaked the grain over wide areas, but the arrival of drier and hotter weather has accelerated harvest operations. Even so, the Soviets have failed to maintain the usual harvesting pace. By 23 July, grain on about 13% of the total area had been threshed, compared with an average of 18% in the preceding three years. Party and agricultural leaders are exhorting the farms to finish the harvest quickly to halt the decline in quality that sets in when unthreshed wet grain is left too long in the field or is not dried after being threshed.

East of the Urals, crop prospects are not as good as last year. Rainfall since April in Kazakhstan and West Siberia has been less than in any of the preceding four years. Soil moisture is inadequate or marginally adequate in a number of areas, so yields could fall drastically if dry weather persists. In the past 10 days, temperatures much cooler than normal have moderated the fall in soil moisture while at the same time slowing the development of the grain - mainly spring wheat. As the crop was planted later than usual, the always-present chance that it will encounter frost and snow before ripening has increased.

Weather developments in the first 20 days of July have not changed earlier forecasts for the overall grain crop - a record 157 million tons of usable grain. Because the estimate assumes average weather conditions from now through September, the forecast still embodies a good deal of uncertainty; statistically, chances are 1 in 3 that the crop could be either more than 161 million tons or less than 153 million tons.

Last week, additional Soviet purchases of 1-1/2 million tons of US corn were reported to the Department of Commerce, raising total purchases by the USSR in 1973 to about 9 million tons, of which more than 6 million tons was from the United States. The scheduled imports come to within a few million tons of bridging the gap between Soviet requirements for grain (estimated at 165 million to 170 million tons) and the forecast crop of 157 million tons. Additional purchases could develop if Moscow decides to rebuild its depleted grain stocks or if the situation east of the Urals deteriorates.

25X1

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Status of US Grain Shipments to the USSR

All but 4.5 million tons of the 20.3 million tons in US grain export commitments to the USSR were shipped by the close of fiscal year 1973. Only 2 million tons of this shortfall was unanticipated. Soviet representatives in late 1972 agreed to deferred shipment of 2.5 million tons of corn until FY 1974, when it had become clear that this tonnage could not be moved earlier because of rail and port congestion.

	Million Tons						
	Total ¹	Wheat	Corn	Barley	Oats	Rye	Soybeans
Spillover from FY 1972	0.5	0	0.2	0.2	0.1	0	0
Commitments in FY 1973	19.8	11.0	7.2	Negl.	0	0.4	1.2
Total to be moved in FY 1973	20.3	11.0	7.4	0.2	0.1	0.4	1.2
Total actually moved in FY 1973	15.7	10.4	3.6	0.2	0.1	0.2	1.2
Spillover into FY 1974	4.5	0.6	3.8	0	0	0.2	0

1. Because of rounding, components may not add to the totals shown.

Shipments rose steadily after January 1973 as loadings at East Coast ports increased from less than 100,000 tons in February to 495,000 tons in June. Monthly loadings at Gulf ports remained in the 1.2 million to 1.3 million ton range from January through June.

Since the US-Soviet maritime agreement went into effect in December 1972, Soviet and US fleets each have carried about 20% of the grain trade and ships of other registry the remaining 60%. Under the terms of the accord, US and Soviet fleets each were entitled to carry at least one-third of the trade. The tonnage lifted by Soviet ships reached a high of 460,000 tons in March 1973 and dropped sharply thereafter to only 80,000 tons in June. Seasonal factors such as the resumption of timber exports from ports in the Soviet North, the mobilization of shipping for the annual movement of supplies to points along the Northern Sea Route, and the resumption of Canadian grain shipments from St. Lawrence and Hudson Bay ports contributed to this falloff.

25X1

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New Interest in Southeast Asian Oil

The winding down of the Indochina conflict, combined with growing world demand for oil, has stimulated new interest in the offshore areas of Southeast Asia. Although long considered a promising area by oil geologists, Southeast Asia has never been adequately explored. This situation is changing fast. The latest and most intense interest is in South Vietnam. Thirteen companies individually and in consortia responded to Saigon's recent invitation to bid for offshore oil concessions. The four companies awarded concessions (three are American) will be required to spend some \$60 million on exploration during the next five years to retain their concessions.

Other areas in Southeast Asia also are getting more attention from oil companies.

- In Burma, a US company is conducting government-sponsored exploratory work in the Gulf of Martaban under a contract financed by Japanese aid.
- In Cambodia, the Ministry of Mining recently awarded a concession to an American-run Hong Kong firm.
- In Thailand, two US oil companies have found traces of oil and gas offshore.
- In Malaysia, several promising recent discoveries have prompted a government attempt to replace existing concession arrangements with production-sharing plans.

The major obstacle to further oil exploration and development offshore is the overlapping of territorial claims of several countries. This is particularly true in the Gulf of Thailand, considered one of the most promising areas in Southeast Asia. Here, disputes among South Vietnam, Cambodia, Thailand, and Malaysia are discouraging many oil companies from moving in. In recent bidding for South Vietnamese concessions, the companies largely avoided the Gulf area and concentrated on the undisputed South China Sea.

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Soviet Oil Exports to the West Decline¹

The Soviet Union exported 48 million tons of oil to the West in 1972, a decline of 2 million tons from the previous year. However, because of the increased value of oil, hard currency receipts rose slightly to about \$580 million and remained the Soviet Union's largest source of hard currency. Oil imports rose to a record 9.2 million tons. These imports were obtained on a barter basis and thus involved little or no hard currency expenditure.

Soviet Petroleum Trade with the Non-Communist Countries

	Million Tons			
	1965	1970	1971	1972
Exports	35.5	45.4	49.7	47.8
Western Europe	22.7	37.5	41.0	40.5
Japan	3.9	2.7	3.3	2.0
United States	0	Negl.	Negl.	0.4
Middle East	2.3	3.0	2.9	2.5
Africa	1.0	1.3	1.6	1.7
Other countries	5.6	0.9	0.9	0.7
Imports	Negl.	3.6	5.7	9.2
Net exports	35.5	41.8	44.0	38.6

Soviet sales to the West in 1973 are expected to grow little, if at all, because the increase in Soviet oil output probably will be sufficient only to meet the growth in demand in the USSR and Eastern Europe. Imports should rise to about 12 million tons, and continuing the trend begun in 1972, some imported crude oil will be used to satisfy domestic demand. While hard currency earnings from oil sales should continue to rise, primarily as a result of price increases, the Soviet Union undoubtedly will find it more difficult to obtain imports on a barter basis.

25X1

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26 JUL 73

Publication of Interest

Shortages in the World Fertilizer Market

(CIA ER IM 73-52, July 1973,)

25X1

In the past year the world market for important nitrogen and phosphate fertilizers has shifted dramatically from a situation of unused capacity and unsold stocks to one of short supplies and soaring prices. This change has been the result of intensive efforts to expand food production in the wake of worldwide shortages. Developing nations are having problems finding adequate supplies and paying the escalating prices. The world fertilizer market will almost certainly remain tight for at least the next year or two; new plant capacity will substantially increase the supply of phosphate fertilizers by the end of 1974 and nitrogen fertilizers by the end of 1975.

25X1

DOMESTIC ECONOMIC INDICATORS

GNP*						WHOLESALE PRICES					
(Constant Market Prices)						(Industrial)					
Latest Period	Quarter	Percent Change from Previous Period	Average Annual Growth Rate Since			Latest Period	Quarter	Percent Change from Previous Period	Average Annual Growth Rate Since		
			1970	1 Year Earlier	3 Months Earlier				1970	1 Year Earlier	3 Months Earlier
United States	73 II	0.6	5.1	6.4	2.5	United States	Jun 73	1.0	5.0	7.7	14.8
Japan	73 I	3.6	9.8	16.0	15.2	Japan	Jun 73	1.0	4.1	13.6	11.4
West Germany	73 I	5.4	4.7	5.8	25.6	West Germany	Jun 73	0.6	4.7	6.7	6.8
France	73 I	2.0	5.5	3.8	8.2	France	Apr 73	0.8	6.2	12.0	20.2
United Kingdom	73 I	1.5	3.2	7.1	6.2	United Kingdom	Jun 73	1.0	6.7	6.2	3.7
Italy	73 I	0.8	3.1	5.2	3.4	Italy	Apr 73	1.1	6.4	12.1	18.7
Canada	73 I	2.9	6.3	8.0	12.1	Canada	Mar 73	2.3	6.6	12.3	27.3

INDUSTRIAL PRODUCTION*						CONSUMER PRICES					
United States	Jun 73	0.2	5.5	9.6	6.1	United States	Jun 73	0.7	4.5	5.9	8.3
Japan	May 73	2.7	9.4	19.4	23.3	Japan	May 73	1.7	7.4	10.9	28.2
West Germany	May 73	1.1	4.4	7.8	-1.3	West Germany	Jun 73	0.7	6.2	7.9	8.5
France	May 73	4.2	7.9	10.6	10.7	France	May 73	0.9	6.0	7.2	8.9
United Kingdom	May 73	0.1	3.8	9.2	3.5	United Kingdom	Jun 73	0.5	8.6	9.3	13.3
Italy	May 73	8.1	2.9	7.6	44.8	Italy	Jun 73	0.9	7.2	11.4	14.5
Canada	May 73	0.1	6.9	10.3	7.5	Canada	Jun 73	0.9	5.0	8.1	11.4

RETAIL SALES*						MONEY SUPPLY*					
(Current Prices)											
United States	Jun 73	-0.8	11.0	12.1	-6.1	United States	Jun 73	1.2	7.8	7.4	10.3
Japan	Mar 73	4.0	12.9	24.8	45.2	Japan	Apr 73	3.8	19.9	34.0	48.9
West Germany	Mar 73	-5.7	9.1	5.9	14.2	West Germany	May 73	-4.2	10.2	8.4	-13.6
France	Mar 73	4.1	6.3	7.0	6.7	France	Mar 73	0.8	12.5	10.0	-3.4
United Kingdom	Mar 73	3.0	12.9	19.8	26.8	United Kingdom	Apr 73	2.2	12.2	13.1	19.1
Italy	Jan 73	-8.3	8.1	11.9	3.3	Italy	Jan 73	3.7	23.4	27.0	63.6
Canada	Apr 73	2.5	12.1	14.8	30.6	Canada	May 73	2.3	14.1	17.5	20.3

MONEY-MARKET RATES						
Representative Rates		Percent Rate of Interest				
		Latest	12 Months Earlier	3 Months Earlier	1 Month Earlier	
United States	Prime finance paper	Jul 20	8.13	4.75	6.75	7.63
Japan	Call money	Jul 13	7.25	4.25	5.88	6.50
West Germany	Interbank loans (3 months)	Jul 20	14.25	4.56	N.A.	13.50
France	Call money	Jul 14	8.63	3.75	7.62	7.62
United Kingdom	Local authority deposits	Jul 6	5.18	4.68	7.42	7.90
Canada	Finance paper	Jul 20	7.63	5.00	6.25	7.00
Euro-Dollars	Three-month deposits	Jul 20	10.38	5.69	8.13	8.94

25

*Seasonally Adjusted

25X1

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26 July 1973

25X1

EXTERNAL ECONOMIC INDICATORS

	Latest Period	Percent Change from Previous Period	Average Annual Growth Rate Since		
			1970	1 Year Earlier	3 Months Earlier
EXPORT PRICES (US\$)					
United States	May 73	3.1	6.3	13.7	18.9
Japan	May 73	1.5	11.9	20.7	64.0
West Germany	Apr 73	0.9	10.9	13.0	64.5
France	Mar 73	6.9	12.8	20.6	70.4
United Kingdom	May 73	2.5	10.4	6.2	34.7
Italy	Feb 73	3.8	8.0	8.8	26.9
Canada	Mar 73	1.8	4.9	9.4	19.1

EXPORT PRICES
(National Currency)

United States	May 73	3.1	6.3	13.7	18.9
Japan	May 73	1.3	0.9	4.8	13.5
West Germany	Apr 73	0.7	1.2	1.3	4.2
France	Mar 73	1.5	4.9	8.3	12.3
United Kingdom	May 73	0.8	8.4	9.6	15.3
Italy	Feb 73	2.7	4.7	6.8	19.8
Canada	Mar 73	1.8	3.6	9.3	20.4

IMPORT PRICES
(National Currency)

United States	May 73	1.2	9.9	17.4	43.1
Japan	May 73	2.5	2.8	14.1	13.2
West Germany	Apr 73	1.3	0.3	7.2	5.3
France	Mar 73	1.9	2.5	0.4	-16.3
United Kingdom	May 73	3.5	11.1	28.1	38.8
Italy	Feb 73	3.5	6.4	9.3	23.2
Canada	Mar 73	3.4	4.0	6.2	18.4

OFFICIAL RESERVES

OFFICIAL RESERVES		Billion US \$			
	Latest Period			1 Year	3 Months
	End of		June 1970	Earlier	Earlier
United States	May 73	14.0	16.3	13.3	14.0
Japan	Jun 73	15.2	4.1	15.8	18.1
West Germany	May 73	32.2	8.8	19.9	29.5
France	Jun 73	10.2	4.4	9.4	11.2
United Kingdom	Jun 73	7.0	2.8	8.9	6.0
Italy	Apr 73	6.4	4.7	6.5	5.8
Canada	Jun 73	5.9	4.3	6.2	6.0

EXPORTS*
(f.o.b.)

EXPORTS*		Cumulative - (Million US \$)			
(f.o.b.)	Latest Period	Million US \$		1973	1972
United States	May 73	5,603	Jan-May	26,511	19,015
Japan	Jun 73	2,854	Jan-Jun	16,826	13,068
West Germany	May 73	5,740	Jan-May	24,827	18,721
France	Jun 73	3,135	Jan-Jun	16,982	12,821
United Kingdom	Jun 73	2,512	Jan-Jun	13,636	11,716
Italy	May 73	1,786	Jan-May	7,542	7,352
Canada	Apr 73	1,983	Jan-Apr	7,760	6,260

IMPORTS*
(f.o.b.)

IMPORTS*		Cumulative (Million US \$)		
(f.o.b.)	Latest Period	Million US \$	1973	1972
United States	May 73	5,761	Jan-May 27,306	20,847
Japan	Jun 73	2,732	Jan-Jun 13,785	8,719
West Germany	May 73	4,362	Jan-May 19,370	15,245
France	Jun 73	3,038	Jan-Jun 16,370	12,371
United Kingdom	Jun 73	2,867	Jan-Jun 15,523	12,231
Italy	May 73	2,118	Jan-May 8,508	6,774
Canada	Apr 73	1,747	Jan-Apr 7,219	5,968

TRADE BALANCE*
(f.o.b./f.o.b.)

TRADE BALANCE ^a		Cumulative (Million US \$)			
(f.o.b./l.o.b.)	Latest Period	Million US \$		1973	1972
United States	May 73	-158	Jan-May	-795	-1,832
Japan	Jun 73	122	Jan-Jun	2,862	4,349
West Germany	May 73	1,378	Jan-May	5,457	3,475
France	Jun 73	97	Jan-Jun	612	449
United Kingdom	Jun 73	-356	Jan-Jun	-1,887	-515
Italy	May 73	-353	Jan-May	-966	578
Canada	Apr 73	236	Jan-Apr	541	292

EXCHANGE RATES (Spot Rate)

As of 20 Jul 73	US \$ Per Unit	Percent Change from			
		Dec 66	18 Dec 71	19 Mar 73	13 Jul 73
Japan (Yen)	0.0038	36.61	16.08	-0.89	-0.13
West Germany (Deutsche Mark)	0.4333	72.35	39.64	22.37	3.14
France (Franc)	0.2472	22.44	25.55	12.16	0.98
United Kingdom (Pound Sterling)	2.5400	-8.98	-2.52	3.21	-0.11
Italy (Lira)	0.0017	7.37	-0.06	-2.88	0.53
Canada (Dollar)	1.0110	9.61	1.32	1.33	0.95

TRADE-WEIGHTED EXCHANGE RATES

As of 20 Jul 73	Percent Change from			
	Dec 66	18 Dec 71	19 Mar 73	13 Jul 73
United States	-21.22	-11.57	-4.75	-1.04
Japan	22.56	8.60	-3.45	-0.59
West Germany	34.88	17.69	12.60	1.81
France	-9.34	3.88	1.43	-0.86
United Kingdom	-32.75	-18.57	-4.16	-1.41
Italy	-23.08	-21.79	-14.87	-1.24
Canada	4.89	-1.64	0.02	0.77

*Seasonally Adjusted

26 July 1973

25X1